

Message Text

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ACTION SS-30

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C O N F I D E N T I A L GEORGETOWN 1409

EXDIS

E.O. 11652: GDS

TAGS: EMIN, EINV, PFOR, GY

SUBJECT: REYNOLDS NEGOTIATION-PM WANTS ANOTHER ROUND

REF: (A) STATE 175949, (B) GEORGETOWN 1398 (C) GEORGETOWN 1395

SUMMARY: FOLLOWING PRESENTATION LAST NIGHT ON REFTELS A AND C DURING HALF-HOUR MEETING, PM PHONED ME AT 0745 AUG 13 TO SAY "IT WOULD BE HELPFUL IF ROBERTS AND TEAM COULD RETURN AUG 14" FOR FURTHER TALKS. END SUMMARY.

1. AS REPORTED REFTEL B I SAW PM BURNHAM AT 1930, HAVING READ REFTEL A. BEFORE WE HAD TIME TO GET INTO REYNOLDS MATTER HE TOOK PHONE CALL FROM MIN MINES JACK AND REMONSTRATED THAT HE HAD BEEN WAITING ALL DAY FOR JACK TO BRING HIM REVISED TAX PACKAGE FOR DISCUSSION WITH ME, AND TOLD JACK HE WOULD SEE HIM SOON AS I HAD LEFT. (COMMENT: POSSIBLY WINDOW DRESSING, BUT SUBSEQUENT DEVELOPMENTS GIVE IT SOME CREDIBILITY).

2. PM ASKED IF I HAD BEEN IN TOUCH WITH REYNOLDS. I SAID I HAD GIVEN FULL REPORT AND SOME SUGGESTIONS TO STATE DEPT WHICH IN TURN HAD CONTACTED REYNOLDS. WHAT I WAS ABOUT TO TELL HIM REFLECTED TO LARGE EXTENT JOINT JUDGMENT OF SITUATION. I THEN PROCEEDED TO MAKE PRESENTATION AS INSTRUCTED IN REFTEL A, STRESSING IDEA OF HAVING ANOTHER TRY AT BRIDGING THE TAX GAP, DEVELOPING FULLY THE ARGUMENTS IN REFTEL C WHICH CONTRAST GUYANESE AND JAMAICAN STAKES AND
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THE GLOBAL ECONOMIC FACTORS WHICH REYNOLDS MUST TAKE INTO

ACCOUNT IN GAUGING VIABILITY OF ITS GUYANA OPERATIONS. I ENDED BY PUTTING FORTH SUGGESTIONS ONE AND THREE, ADDING THAT DEPT UNDERSTANDS REYNOLDS WOULD WELCOME CHANCE TO CONTINUE NEGOTIATIONS, AND MY OWN HUNCH THAT THIS COULD, AND PROBABLY SHOULD, MEAN DEALING WITH ALL ASPECTS OF BAUXITE OPERATIONS IN GUYANA.

3. IN COURSE OF PRESENTATION, I SAID I UNDERSTOOD (PER CONVERSATION WITH WAGNER THAT AFTERNOON) ROBERTS HAD POSTPONED PLANNED TRIP TO LONDON AND WAS STANDING BY IN RICHMOND. BURNHAM'S FIRST REACTION WAS TO ASK HOW SOON REYNOLDS TEAM COULD RETURN TO GEORGETOWN. I SAID EARLIEST WOULD BE AUG 14. BURNHAM THEN ASKED WHETHER ROBERTS REALLY HAD THE CLOUT TO MAKE COMMITMENTS OR WHETHER MC CONNELL REALLY ONE WHO CALLS SHOTS. I HEDGED BY SAYING I HAD IMPRESSION THAT ROBERTS WAS THOROUGHLY BRIEFED AND HAD FULL CONFIDENCE OF CHAIRMAN REYNOLDS AND THAT OUR ASSESSMENT WAS THAT COMPANY AS MATTER OF POLICY WOULD GO AS FAR AS ECONOMICALLY FEASIBLE TO ACCOMMODATE GOG. IN THIS CONNECTION, I SAID HE OUGHT TO BEAR IN MIND THAT REYNOLDS HAD SHOWN CONSISTENT PATTERN OF RESPONSIBLE CORPORATE BEHAVIOR AND HAD FULLY LIVED UP TO ITS COMMITMENTS TO GOG, E.G. MEETING PRODUCTION TARGETS, RETAINING REDUNDANT STAFF, ETC. BURNHAM SAID THIS WAS INDEED TRUE, EVEN IN TIMES OF OVERALL RETRENCHMENT OF COMPANY'S OPERATIONS.

4. AT THIS POINT BURNHAM SAID HE WISHED TO CONSULT WITH HIS THREE MAIN ADVISERS (JACK, MIN EON DEVEL KING, AND FONMIN RAMPHAL) AND WOULD CALL ME WITHIN A COUPLE OF HOURS TO GIVE ME HIS DECISION.

5. RELAXING SOMEWHAT, BURNHAM INQUIRED WHAT PERCENTAGE CALCINED BAUXITE REPRESENTED IN REYNOLDS TOTAL PRODUCTION IN GUYANA. I SAID I UNDERSTOOD BETWEEN ONE-FOURTH AND ONE-THIRD BY VOLUME BUT LATELY MORE THAN HALF BY VALUE. BURNHAM SAID HE AND MINISTERS WERE THINKING OF STICKING TO 1965 CONTRACT ON PROVISIONS FOR REVENUE FROM CALCINED, AND MENTIONED A FIGURE OF G\$400,000 (I.E. ROUGHLY US\$186,000).

6. BURNHAM ASKED WHETHER MY FIGURES INCLUDED "CHEMICAL"
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GRADE BAUXITE. I SAID I THOUGHT REYNOLDS INCLUDED THE SEVERAL "CHEMICAL" PRODUCTS IN A GENERAL STATISTICAL CATEGORY ALONG WITH CALCINED. I ALSO ADDED THAT REYNOLDS DID PERFORM SOME FINAL PROCESSING OF SPECIALIZED "CHEMICAL" GRADES AT ITS U.S. PLANTS, BUT THAT ALL SALES WERE TO THIRD PARTIES AS IN CASE OF CALCINED AND THEREFORE WERE NOT PART OF WHAT HE CALLS THE "INTEGRATED PROCESS". FINALLY, I GAVE IT AS MY IMPRESSION THAT BOTH VOLUME AND VALUE OF CHEMICAL PRO-

DUCTION WERE QUITE SMALL.

7. REFERRING TO HIS COMMENT ON AUG 10 THAT REYNOLDS PROFITS UP 600 PERCENT FROM FIRST QUARTER 1973 TO 1974, I SHOWED HIM LATEST QUARTERLY REPORT (GIVEN ME BY WAGNER) AS OF JUNE 30 AND OBSERVED THAT INCOME BEFORE TAXES ON SECOND QUARTER WAS UNDER TEN PERCENT OF NET SALES, WHILE IN SAME PERIOD OF 1973 IT HAD BEEN ONLY TWO PERCENT. HE AGREED WITH MY CONCLUSION THAT THIS WAS ANOTHER ASPECT WHICH SHOULD NOT BE TREATED IN ISOLATION.

8. I NOTED THAT IN FIRST ROUND OF TALKS REYNOLDS HAD NOT BALKED AT RETROACTIVE FEATURE OF PROPOSED PRODUCTION LEVY, A MATTER WHICH COULD INVOLVE THORNY LEGAL QUESTIONS FOR GOG IF THINGS GOT TO THAT POINT. BURNHAM SAID WITH SMILE HE UNDERSTOOD KINDS OF PROBLEMS COMPANIES FACE WHEN RETROACTIVE LEVIES AFFECT FISCAL YEARS FOR WHICH EARNINGS ALREADY DISTRIBUTED. FOR THIS REASON, GOG HAD LIMITED TAX TO CURRENT FISCAL YEAR.

9. BURNHAM AT ONE POINT ALLUDED TO HIS POLITICAL PROBLEM IN DEALING WITH REYNOLDS, AND AGAIN RAISED THE SPECTER OF OUR HAVING TO DEAL WITH A NEW PM. HE ASKED IF USG TAKING THIS INTO ACCOUNT. I SAID WE WERE INDEED AND AGAIN ASSURED HIM "WE HAVE NO RPT NO CANDIDATE". I ADDED THAT USG IS NOT RPT NOT A PARTISAN IN REYNOLDS MATTER, WE ARE TRYING TO ACT AS FRIENDS OF BOTH PARTIES. BURNHAM SAID HE BOTH AGREED WITH AND APPRECIATED THIS ASSURANCE.

10. WHEN BURNHAM PONDERED OUT LOUD WHAT KIND OF SOLUTION HE COULD DEFEND TO COUNTRYMEN, I SAID I THOUGHT HE COULD SELL A PROPOSITION WHICH DIFFERS FROM JAMAICAN FORMULA BY SHOWING REASONABLE SHORT-TERM GAIN COUPLED WITH CONFIDENTIAL

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AN ARRANGEMENT WHICH WOULD GIVE GUYANA IMPROVED LONG-TERM PROSPECTS FOR EXPANSION OF BAUXITE PRODUCTION AND REVENUES.

11. BURNHAM DID NOT CALL ME LAST NIGHT, BUT AS I HAVE REPORTED IN TELECOM W/BURKE, HE NALLED AT 0745 TO APOLOGIZE AND TO SAY THAT AFTER DISCUSSION WITH ADVISERS HE THOUGHT IT WOULD BE "VERY HELPFUL IF REYNOLDS TEAM COULD RETURN TO GEORGETOWN TOMORROW". (AUG 14). I ASKED IF HE WAS PASSING THIS MESSAGE DIRECTLY TO REYNOLDS. HE SAID "NO, I AM ASKING YOU TO BE THE CHANNEL". HE DID NOT ELABORATE FURTHER WHAT IS TO BE DISCUSSED OR AT WHAT LEVEL.

12. COMMENT: I BELIEVE WE MUST ASSUME THAT BURNHAM GENUINELY WANTS TO MAKE FINAL EFFORT TO AVOID CONFRONTA-

TION AND THAT, APART FROM THE POINTS ALREADY CONCEDED IN MY MEETING WITH HIM AUG 10, THERE MAY WELL BE ADDITIONAL FLEXIBILITY. AT SAME TIME, I THINK IT WOULD BE ILLUSORY FOR REYNOLDS TO BELIEVE THAT IT CAN STAND PAT ON ITS OFFER OF LAST WEEK. IN ENGINEERING TERMS, WHERE GAP IS WIDE BRIDGE MUST BE BUILT FROM BOTH SIDES TO MEET IN MIDDLE. I BELIEVE IT IS ESPECIALLY IMPORTANT FOR REYNOLDS TEAM TO HAVE A SERIES OF OPTIONS IN MIND, DEALING WITH WHOLE COMPLEX OF FUTURE OPERATIONS HERE, AND INCORPORATING TO EXTENT FEASIBLE FRESH IDEAS ABOUT HOW REYNOLDS CAN FIT INTO AN EXPANDING BAUXITE PICTURE IN WHICH GREATER ALUMINA AND EVENTUALLY INGOT PRODUCTION WILL BE FACTOR. KREBS

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